

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

October 21, 2014
Report No.: AB7642

Operation Name	Nigeria Second Edo State Growth and Employment Support Credit
Region	AFRICA
Country	Nigeria
Sector	Public Administration- Public Financial Management (60%); Education; including vocational training (20%); Other industry (20%)
Operation ID	P151480
Lending Instrument	Development Policy Lending
Borrower(s)	FEDERAL REPUBLIC OF NIGERIA
Implementing Agency	
Date PID Prepared	October 21, 2014
Estimated Date of Appraisal	January 13, 2015
Estimated Date of Board Approval	March 16, 2015
Corporate Review Decision	
Other Decision <i>{Optional}</i>	

I. Key development issues and rationale for Bank involvement

Prior to 2008, Edo state had suffered from infrastructure neglect and weak governance structures, particularly in the management of public finances. In the last six years, the current administration in Edo state has vigorously pursued an infrastructure-oriented growth and employment agenda - making great strides in rehabilitating and widening the road network as part of its urban renewal efforts which include improvements in drainage and waste management; invested heavily in school rehabilitation, and is now improving incentives for teachers and the redistribution of teachers to rural areas to address skills gaps; invested in health infrastructure and rehabilitation of primary healthcare institutions and General Hospitals. These interventions have occurred within the context of the state government's medium term development strategy which prioritizes growth and employment creation.

The Bank began to support Edo state's development program through budget support in 2012 in the form of a programmatic series of three development policy operations. The first closed in June 2014 and this is the second in the series. Implementation of the program since the first operation has been largely promising, and the operation has been instrumental in helping Edo state undertake the policy and institutional reforms to support its growth and employment creation agenda, and at the same time build a strong public financial management system. Major progress has been recorded in building a modern, automated and integrated financial management system, with the required in-built controls aimed at enhancing transparency, comprehensiveness, and accountability in the management of public finances in the State as well as improving commitment control; improving the timeliness of preparation of the State

government's annual accounts as well as the external auditing of these accounts which continue to be progressively improved; adoption and now implementation of key legislation like the public procurement Act; development of streamlined procedures for registering landed property which has reportedly reduced the time it takes to process land Certificates of Occupancy; and enhancement of the governance framework for managing technical and vocational training institutions in the state through the establishment School-Based Management Committees. Continued support to Edo through this second operation will help Edo consolidate and strengthen its initial efforts.

II. Proposed Objective(s)

The operation's development objective is to support Edo State's critical reforms for improving the management of its public resources and creating a better environment for growth and employment creation in a socially accountable manner. This objective corresponds with many of the areas of priority articulated in the state government's development strategy - the Edo State Strategy Plan (SSP). In particular, the economic and fiscal strategy of the state's strategic plan prioritizes efforts to increase internally generated revenue and diversify the revenue base of the state; efforts to strengthen expenditure control and value-for-money by implementing the provisions of the Edo State Public Procurement Act at the State and local government levels; adoption of measures to improve budget implementation through strengthening the quality of project planning, timely passage of budgets, adequate funding of projects, and monitoring of project implementation; improvement in the efficiency of public spending through stronger accountability and transparency arrangements for the utilization of public funds. Furthermore, the SSP places emphasis on improvements to education, including Science Education as well as technical and vocational education as a means of strengthening the quality of its labor force. Similarly, it emphasizes the creation of an enabling environment for the private sector to play a greater role in the state economy and be the engine for job creation.

The following results are expected as a result of the operation:

- Growth in Edo state's IGR by up to 6.5 percent in real terms by 2015 as the state continues to develop other tax handles and optimize its revenue from all sources;
- The ratio of Edo state's wage bill (including pensions and gratuities) to total public expenditure is contained below 40 percent as a result of continued sanitization of the payroll;
- Public procurement capacity would be strengthened and procurement professionals in the public service would be able to implement modern procurement procedures;
- the public procurement process would be evidently more transparent with information on large contract awards being made public;
- the credibility of the state budget management process improves and the incidence of expenditure arrears is significantly reduced;

- Internal audit and controls in all state ministries would be significantly improved; and external audit performed by the Supreme Audit Institution would have progressively transitioned to use of INTOSAI standards on auditing.
- The time it takes to register property and to issue building permits in Edo State is significantly reduced;
- The state will be well on its way to instituting a policy framework for PPPs with a view to attracting early investments for commercial agriculture.
- better governance at the TVET institutional levels that will lead to an increase in the number of accredited courses in technical and vocational education institutions in Edo;
- increase in the share of certified female science teachers in total number of teachers located in rural areas; and
- reduction in drop-out rates of female pupils at basic education level in rural areas.

III. Preliminary Description

The program supports two main policy areas, namely: (1) Improving the management of public resources and (2) Improving the policy environment for growth and employment creation. Under the first policy area, the operation will provide support across two pillars; namely: i. Ensuring fiscal sustainability; and ii. Improving budget institutions & practices. Under the second policy area, it will equally support two pillars: i. Improving the investment climate; and ii. Improving the quality of education. The following are the prior actions for this operation:

1. Conduct and complete payroll verification audit of Education and Health sector staff (to be validated by an independent consultant)
2. Establish procurement professional cadre and advertise within the state public service to populate it
3. Completion of systems configuration and Operational Acceptance Testing (OAT) of the Hyperion Budget module of Oracle (SIFMIS).
4. All MDA expenditure transactions are processed directly through the P2P module of Oracle SIFMIS
5. Preparation of 2015 budget of all MDAs based on sector strategies articulated in the SSP
6. Quarterly Budget Execution Reports of Edo State published on the State's Open-Data web portal at the economic and functional classification levels.
7. Implementation of streamlined procedures for obtaining Certificates of Occupancy

8. Expand EMIS to 50 schools in at least 12 Local Government Areas of Edo state
9. Operationalize established School Based Management Committees through the development of TVET school improvement plans and requisite funding
10. Implement special incentives pilot in 3 priority LGAs for female science teachers to locate in rural areas.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

Although no empirical poverty and social impact analysis (PSIA) has been conducted in the context of this operation, it is expected that the policy and institutional reforms being supported will contribute positively towards the reduction of poverty. Even without carrying out ex-ante, a formal empirical PSIA of all the major reforms to be supported under the operation, a theoretical assessment of the likely connections between the policy reforms being implemented and their expected impact on the poor indicates that overall; the reform program is expected to have beneficial effects on the poor in Edo State.

Reforms for improving the management of public resources are aimed at improving the quality of spending in Edo State, which is expected to benefit especially the poor. As indicated earlier, a key element of the state's development strategy is employment creation and sustainable economic growth by tackling the state's main challenges, including youth unemployment and dilapidated infrastructure. The Government's strategy is to tackle these challenges by allocating more resources to the identified priority sectors of roads, drainage, education, health, agriculture, and ICT. The PFM reforms being supported under the proposed DPO are aimed at improving the quality of public expenditure by ensuring that the budget is indeed aligned to these growth and employment creating priorities, and that all practices in the implementation, monitoring and evaluation of the budget are consistent with the principles of effectiveness, efficiency, and transparency. Therefore, once implemented, it can be expected that PFM reforms will have a positive impact on the poor.

Improved quality of education will empower the poor and put them in a better position to take advantage of various income earning opportunities. The reforms for improving the quality of education being supported by the second DPO are biased towards the poor. In particular, vocational and technical education are meant to improve the employability of those who do not have formal education, did not complete their formal education, or who have formal education qualifications but have still not been able to find employment because their qualifications are not in demand in the job market.

Reforms for improving the investment climate are also expected to be beneficial to the poor in Edo State through increased opportunities for self-employment and wage employment. The

reforms being supported under the proposed DPO are aimed at making it easier for potential investors to register land, obtain building permits and obtain certificates of occupancy upon completion of building construction. It is expected that these reforms will improve opportunities for self and wage employment. In terms of self-employment, a boom in investments in the state will lead to the emergence of a middle class in Edo which will in turn lead to an increase in demand for goods and services provided by microenterprises, most of which are owned by the poor. At the same time, increased investment will create wage employment opportunities for the poor. For example, greater security of property rights will unlock the bottlenecks in accessing finance, not just for businesses, but for the general land owner since land is still the most common form of collateral in Nigeria. Currently, a huge percentage of Nigerians remain unbanked, and lack access to credit due to lack of collateral. Accesses to collateral will, therefore, bring more people into the financial market. Furthermore, increased access to investment land will increase the availability of land for transaction and, therefore, make it more tradable, and in turn, bring down the exorbitant cost of land in Edo state.

Environment Aspects

The policy and institutional reforms to be supported by the proposed DPO are not expected to have any significant adverse and or direct impacts on the environment. Improvements in policies and institutions for managing public resources, attracting investors, and improving the quality of education as outlined above are not likely in themselves to have any direct impact on the environment. However, it is not inconceivable that indirectly, the budget support funding to be provided could be spent on activities that have the potential to damage the environment thus requiring appropriate mitigation to acceptable levels. In this regard, it is expected that the state Government will apply the extensive experience acquired in implementing World Bank investment projects which require strict adherence to environmental safeguards. Edo State has demonstrated significant goodwill and capacity to enforce the extant environmental laws in the State and in complying with World Bank Safeguards Policies in the implementation of World Bank assisted investment projects (FADAMA III, NEWMAP, SEEFOR, and CSDP) in the State. Furthermore, there are adequate legal and institutional frameworks in Nigeria and Edo State for achieving good international practice relating to environmental and social sustainability and in fulfilling their national and international, including the World Bank, environmental and social obligations.

V. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	75
Borrower/Recipient	
IBRD	
Others (specify)	
Total	75

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